

AN EXAMINATION OF
THE US DEPARTMENT OF AGRICULTURE
RURAL UTILITIES SERVICE LOAN AND GRANTS

TO THE CITY OF BRAYTON, IOWA

FOR THE YEAR ENDED JUNE 30, 2020

Feldmann & Company CPAs, P.C.

523 North Main St. Carroll, IA 51401

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Independent Accountant's Report

To Mayor and Members of the City Council:

We have examined the US Department of Agricultural, Rural Utilities Service Loan and Grant to the City of Brayton, Iowa, and the accompanying Schedule of Expenditures of Federal Awards identified as Schedule 1 for the year ended June 30, 2020. The City's management is responsible for complying with the requirements of USDA – RUS program by the Code of Federal Regulations – 7 CFR section 1780.7(a)(1). Our responsibility is to express an opinion on the Program's verifications based on our examination.

Our audit was conducted in accordance with attestation standards established by the American Institute of Certified Accountants, U.S. generally accepted auditing standards and, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. A compliance audit is not a legal determination of the City's compliance.

An audit involves performing procedures to obtain evidence about amounts and disclosures in the report. A compliance audit includes examining, on a test basis, evidence supporting the Program and other required information and performing such other procedures as we considered necessary in the circumstances. We believe our examination provides a reasonable basis for our opinion.

Our examination disclosed two findings which are identified following the listing of applied procedures.

In our opinion, except for the findings noted in the preceding paragraph, US Department of Agriculture – Rural Utilities Service Program and the accompanying schedule referred to above are in compliance, in all material respects, with the regulations required by the Code of Federal Regulations – 7 CFR section 1780.7(a)(1), for the year ended June 30, 2020.

This report, a public record by law, is intended solely for the information and use of the City of Brayton and other parties to whom they may report. This report is not intended to be and should not be used by anyone other than these specified parties.

Feldmann & Company CPAs, P.C.

Feldmann & Company CPAs, P.C.

June 27, 2021

AN EXAMINATION OF
THE US DEPARTMENT OF AGRICULTURE
RURAL UTILITIES SERVICE LOAN AND GRANTS

TO THE CITY OF BRAYTON, IOWA
FOR THE YEAR ENDED JUNE 30, 2020

Overview:

1. Awards are direct loans, loan guarantees, project grants for new and improved water and waste systems serving rural areas where financing is not available from commercial sources at reasonable rates and terms. Eligible applicants for water and waste disposal facilities in rural areas and towns of up to 10,000 people.
2. To establish its eligibility for a loan, an applicant must demonstrate to RUS that it cannot finance the proposed project from its own resources or obtain sufficient credit to do so at reasonable terms or rates. In addition, the applicant must have the legal authority to construct, operate, and maintain the proposed facility, and to give security for and repay the proposed loan. A loan is repayable based on the useful life of the facility or 40 years from the date of the note, whichever is sooner. Interest is charged at a poverty rate, intermediate rate, or market rate depending on the circumstances.
3. RUS makes grants in conjunction with direct loans for water and waste disposal projects serving the most financially needy communities in order to reduce user costs to a reasonable level.

Compliance Requirements:

We evaluated the City of Brayton's US Department of Agriculture – Rural Utilities Service program loan and grants to determine compliance with each of the following requirements:

1. Activities Allowed or Unallowed
 - a. Loan and grant funds may be expended on eligible project costs, as approved by RUS. These expenditures include items such as land acquisition, water rights, legal fees, engineering fees, construction costs, and the purchase of equipment.
 - b. Loan and grant funds may not be used for the following (7 CFR section 1780.10):
 1. Facilities which are not modest in size, design, and cost.
 2. Loan or grant finder's fees.
 3. The construction of any new combined storm and sanitary sewer facilities.
 4. Any portion of a project costs normally provided by a business or industrial user, such as wastewater pretreatment, etc.
 5. Rental for the use of equipment or machinery owned by the applicant.
 6. For other purposes not directly related to operating and maintaining the facility being installed or improved.
2. Matching - Borrowers may be required to provide funds from their own or other sources as required in the grant agreement and the letter of conditions issued by RUS (7 CFR sections 1780.44(d) and (f). Matching was not required in the grant agreement for City of Brayton.

3. Reporting – report form RD 442-2 Statement of Budget, Income and Equity, covers financial operations relating to the borrower's water project. Report form 442-3 Balance Sheet, presents the financial status of the borrower's water project.
4. Other Information – Interim financing, after RUS has made a commitment on a loan, the borrower may obtain interim financing from commercial sources for a construction period. Interim financing is required for all loans over \$500,000, except in documented instances where financing cannot be obtained at reasonable rates. (Not applicable for the City of Brayton). Expenditures from these commercial sources that will be repaid from the proceeds of the RUS loan should be considered Federal awards expended, and reported in Schedule of Expenditures of Federal Awards.

City of Brayton
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020

Grantor/Program	CFDA Number	Program Disburse- ments
Direct:		
US Department of Agriculture		
Rural Development Program		
Rural Utility Services		
2017 Water Distribution System		
Improvements	10.760	\$ 451,000.00
Grant		300,616.94
		751,616.94
Skidloader Purchase	10.760	33,200.00
Loan Grant		\$ 17,800.00
		\$ 51,000.00
Indirect:		
none		0
Total Federal Expenditures		\$ 802,616.94

Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of the City of Exira under programs of the federal government for the year ended June 30, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2, U.S. Code of Federal Regulations, part 200, Uniform Administration Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance).

Because the Schedule presents only a selected portion of the operations of the City of Exira, it is not intended to and does not present the financial position, changes in financial position or cash flows of the City of Exira.

Summary of Significant Accounting Policies - Expenditures reported in the Schedule are reported on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Such expenditures are recognized following, as applicable, either the costs principles in OMB Circular A-87, Cost Principles for State,

Local and Indian Tribal Governments, or cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Independent Auditor's Report on Compliance
for Each Major Federal Program and on Internal Control over Compliance
Required by the Uniform Guidance

To the Honorable Mayor and Members of the City Council:

Report on Compliance for Each Major Federal Program

We have audited City of Brayton, Iowa's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on Brayton's major federal program for the year ended June 30, 2020. Brayton's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Brayton's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the audit requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Brayton's compliance with those requirements and performing such other procedures we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of Brayton's compliance.

Opinion on the Major Federal Program

In our opinion, except for the findings noted in schedule of findings and questioned costs, the City of Brayton complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2020.

Other Matters

The results of our auditing procedures disclosed an instance of non-compliance which is required to be reported in accordance with the Uniform Guidance and is described as item III-A-20 in the accompanying Schedule of Findings and Questioned Costs. Our opinion on the major federal program is not modified with respect to this matter.

Brayton's response to the non-compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. Brayton's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

The management of Brayton is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Brayton's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Brayton's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified a deficiency in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs as item III-A-20, we did consider to be a material weakness.

Brayton's response to the internal control over compliance finding identified in our audit is reported in the accompanying Schedule of Findings and Questioned Costs. Brayton's response was not subjected to the auditing. The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Feldmann & Company CPAs, P.C.".

Feldmann & Company CPAs, P.C.

June 27, 2021

CITY OF BRAYTON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2020

Part I: Summary of the Independent Auditor's Results:

- (a) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (b) The audit did disclose non-compliance which is not material to the financial statements.
- (c) A material weakness in internal control over the major program was disclosed by the audit of the financial statements.
- (d) An unmodified opinion was issued on compliance with requirements applicable to the major program.
- (e) The audit disclosed audit findings which are required to be reported in accordance with the Uniform Guidance, Section 200.516.
- (d) The major program was CFDA Number 10.720 – U.S. Department of Agriculture – Rural Utilities Service (RUS)- Water and Waste Disposal Systems for Rural Communities.
- (e) The dollar threshold used to distinguish between Type A and Type B programs was \$750,000.
- (f) City of Brayton did not qualify as a low-risk auditee.

CITY OF BRAYTON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2020

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-20 Segregation of Duties

Criteria – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the City's financial statements.

Condition – One individual in the City has control over all aspects of the financial recording and reporting.

Cause – The City has a only one financial employee and procedures have not been designed to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect – Inadequate segregation of duties could adversely affect the City's ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation – The City should review its control activities to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials.

Response – We shall review procedures and plan to make the necessary changes to improve internal control. City Council will also start reviewing all deposits and expenditures to the monthly reports and bank reconciliation and sign as evidence of the review. We plan to implement these changes as soon as practicable.

Conclusion – Response accepted.

CITY OF BRAYTON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2020

Part III: Findings and Questioned Costs For Federal Awards:

III-A-20 INSTANCE OF NON-COMPLIANCE:

CFDA Number 10.720: Water and Waste Disposal Systems for Rural Communities

Federal Award Year: 2020

Prior Year Finding Number: N/A

U.S. Department of Agriculture – Rural Utilities Service (RUS)

Unwritten policies, procedures and standards of conduct

Criteria – Title 2 of Code of Federal Regulations, Part 200, Subparts D and E (section 200.300 and 200.400 respectfully) Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance) requires all federal grantees to have written policies relative to federal awards. These sections require entities to establish written policies, procedures or standards of conduct.

Condition – The City has no written policies, procedures or standards of conduct relative to federal awards.

Cause – Procedures applied to the transactions for the federal awards may not have been designed or implemented to properly ensure federal expenditures were properly documented, recorded, and supported as required by Uniform Guidance.

Effect – The City is not in compliance with Federal regulations pertaining to the Uniform Guidance requiring written policies, procedures or standards of conduct.

Recommendation – The City should establish written policies, procedures or standards of conduct relative to federal awards.

Response and Corrective Action Planned – We will review policies and establish those required under Uniform Guidance.

Conclusion – Response accepted.

City of Brayton
Corrective Action Plan
Year ended June 30, 2020

Comment Number	Comment Title	Corrective Action Plan	Contact Person, Title, Phone Number	Anticipated Date of Completion
II-A-20	Segregation of Duties	We have reviewed procedures and plan to make the necessary changes to improve internal control as much as possible.	Brooke Hansen, City Clerk, (712) 549-2268	August 1, 2021
III-A-20	Unwritten policies, procedures and standards of conduct	We have drafted procedures and policies to ensure efficient, fair and professional administration of federal grants. Council will act on same as next available meeting.	Brooke Hansen City Clerk, (712) 549-2268	August 1 2021